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Perry S. Goldschein
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December 5, 1997

Doug Slotten
Common Carrier Bureau
Federal Communications Commission
1919 M Street, Room 544
Washington, D.C. 20554

Re: Commission Request for Information

Dear Mr. Slotten:

Per your recent conversation with Victor Glass, enclosed please find the information you requested regarding the results of applying FCC-prescribed access reform changes for price cap companies to NECA's common line pool. If you have any further questions, please do not hesitate to contact Dr. Glass (973/884-8263) or Bill Cook (973/884-8077).

Sincerely,

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JUN 5 '98

FEDERAL COMMUNICATIONS
COMMISSION
OFFICE OF SECRETARY

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EFFECT OF PRICE CAP ACCESS RULES ON NECA'S CL POOL
NECA Model Descriptions and Assumptions

Three scenarios are modeled on the attached exhibits for NECA Common Line Pool participants. NECA is taking no position at this time on which scenario, if any, is preferable. The model is made available to help stimulate discussion on access reform issues pertaining to rate of return carriers in the NECA Common Line pool.

Scenario #1 displays the impact of overlaying Price Cap rate structure rules for Subscriber Line Charges (SLCs) and Presubscribed Interexchange Carrier Charges (PICCs) on Common Line Pool participants.

Scenario #2 assumes the pooling ECs charge SLC rates comparable to the average SLCs of all Price Cap companies. The average Price Cap multiline business SLC is assumed to be \$7.50 per month for 1998, with an annual growth rate of three percent. PICC rates are increased to their caps. CCL rates are calculated to recover the entire residual not recovered through SLC and PICCs. In addition, an unrecovered residual revenue requirement is identified assuming the CCL rate is set equal to the average CCL rate of all Price Cap companies. The average CCL rate for Price Cap companies is assumed to be \$0.0076 in 1998 and \$0.0000 in 2001.

Scenario #3 assumes average Price Cap SLC and CCL rates for pool participants, as identified in scenario #2. The residual revenue requirement is assigned to PICC rates. PICC rates are equal for all classes of service.

General Assumptions:

Calculations are displayed in aggregate for all pooling members.

No changes in pool participation.

All companies in Common Line pool charge the full multiline SLC rate, including companies filing their own end user tariffs.

Long Term Support continues indefinitely.

No demand changes are made to account for demand response.

Cost and demand is adjusted each year using historical growth rates for the NECA pool.

All residual Transport Interconnection Charge revenue requirements are moved to Common Line.

Line Port Costs are moved to Common Line and assumed to be 30% of Local Switching revenue requirement after DEM adjustments.

NATIONAL EXCHANGE CARRIER ASSOCIATION -- ACCESS REFORM ANALYSIS

Scenario: # 1 Price Cap Rules without Modifications

ASSUMPTIONS (SLC=\$3.50, 5.00 & 9.00; PICC= 0.53, 1.50, & 2.75; Orig CCL=0.01 & Term CCL=Residual)

	FORECASTED		NECA INPUT DATA, ASSUMPTIONS AND GROWTH RATES			
	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
CL Revenue Requirement						
CL Revenue Requirement	5.50%	1,182,852,272	1,213,591,645	1,280,339,186	1,350,757,841	1,425,049,522
+ Line Port = 30% (LS Rev Req - DEM Weighting)	6.00%		168,675,764	178,796,310	189,524,089	200,895,534
+ TS Mktg Exp -- Expanded to CL Pool Membership	3.00%		11,750,917	12,103,445	12,466,548	12,840,544
+ New HC/LL -- 3.05% x ('97:SLC + Special Access)	3.00%		17,888,330	18,424,980	18,977,729	19,547,061
+ New HLTH/EDU -- 1.50% x 1997 EU Retail	3.00%		84,354,599	86,885,237	89,491,794	92,176,548
+ TIC Residual to CL Rev Req	6.00%		297,211,302	310,947,231	325,207,511	345,619,962
- COE Maintenance Delta			(9,800,000)	(9,800,000)	(9,800,000)	(9,800,000)
+ Avg Sched Form Adj; Frozen DEM Effects & NECA Expense Adj		-	11,400,000	11,400,000	11,400,000	11,400,000
New Total CL Revenue Requirement		1,182,852,272	1,795,072,557	1,889,096,388	1,988,025,512	2,097,729,172

DEMAND	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
Total Residence & Business Lines						
Primary Line Residence	2.93%	7,285,660	7,389,268	7,605,773	7,828,622	8,058,001
LifeLine Residence	2.93%	60,973	61,853	63,666	65,531	67,451
Single Line Business	7.18%	1,011,643	1,045,353	1,120,410	1,200,855	1,287,077
Non-Primary Line Residence	10.00%	728,566	789,682	868,650	955,515	1,051,066
Multiline Business	8.67%	1,427,889	1,484,421	1,613,121	1,752,978	1,904,961
Total Residence & Business Lines	4.59%	10,514,731	10,770,577	11,271,619	11,803,502	12,368,556

SLC Charges Analyzed	1998	1999	2000	2001
Primary Line Residence	3.50	3.50	3.50	3.50
LifeLine Residence	3.50	3.50	3.50	3.50
Single Line Business	3.50	3.50	3.50	3.50
Non-Primary Line Residence	5.00	6.15	7.33	8.55
Multiline Business	9.00	9.27	9.55	9.83

PICC Charges Analyzed	1998	1999	2000	2001
Primary Line Residence	0.53	1.05	1.58	2.12
LifeLine Residence	0.53	1.05	1.58	2.12
Single Line Business	0.53	1.05	1.58	2.12
Non-Primary Line Residence	1.50	2.55	3.62	4.38
Multiline Business	2.75	4.33	5.96	7.07

Total SLC Revenue	564,550,331	612,723,547	666,928,756	727,874,868
Total PICC Revenue	117,237,753	221,150,530	339,321,933	456,315,708
Total Annual Recurring Revenue (SLC + PICC)	681,788,084	833,874,076	1,006,250,689	1,184,190,576

New Adjusted CCL Rev Req (CL Rev Req - Monthly Revenues)	1,113,284,473	1,055,222,312	981,774,823	913,538,596
- Long Term Support	0.00%	494,176,629	471,126,388	471,126,388
New Adjusted CCL Rev Req - Long Term Support		642,158,086	584,095,924	510,648,436

CCL Chargeable MOUs	8.40%	27,918,625,274	30,263,789,797	32,805,948,140	35,561,647,784
Originating		13,045,427,742	14,141,243,672	15,329,108,141	16,616,753,225
Terminating		14,873,197,532	16,122,546,125	17,476,839,999	18,944,894,559

	1998	1999	2000	2001
NEW CCL RATE/MOU (Orig = Term)	0.0230	0.0193	0.0156	0.0124
NEW CCL TERM RATE/MOU (If Orig = \$0.01)	0.0344	0.0275	0.0204	0.0146

NATIONAL EXCHANGE CARRIER ASSOCIATION -- ACCESS REFORM ANALYSIS

Scenario: # 2 Modified Price Cap Rules: Assumes Average MLB SLC=\$7.50
 ASSUMPTIONS (SLC=\$3.50, 5.00 & 7.50; PCCC= 0.53, 1.50, & 2.75; Orig CCL=0.01 & Term CCL=Residual)
 Also, Reduce CCL from \$0.0076 to 0.0050 to 0.0025 to 0.0000 and show Residual Revenue Requirement.

	FORECASTED	NECA INPUT DATA, ASSUMPTIONS AND GROWTH RATES				
	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
CL Revenue Requirement						
CL Revenue Requirement	5.50%	1,182,852,272	1,213,591,645	1,280,339,186	1,350,757,841	1,425,049,522
+ Line Port = 30% (LS Rev Req - DEM Weighting)	6.00%		168,675,764	178,796,310	189,524,089	200,895,534
+ TS Mktg Exp -- Expanded to CL Pool Membership	3.00%		11,750,917	12,103,445	12,466,548	12,840,544
+ New HC/LL -- 3.05% x ('97 SLC + Special Access)	3.00%		17,888,330	18,424,980	18,977,729	19,547,061
+ New HLTH/EDU -- 1.50% x 1997 EU Retail	3.00%		84,354,599	86,885,237	89,491,794	92,176,548
+ TIC Residual to CL Rev Req			297,211,302	310,947,231	325,207,511	345,619,962
- COE Maintenance Delta		-	(9,800,000)	(9,800,000)	(9,800,000)	(9,800,000)
+ Avg Sched Form Adj: Frozen DEM Effects & NECA Expense Adj		-	11,400,000	11,400,000	11,400,000	11,400,000
New Total CL Revenue Requirement		1,182,852,272	1,795,072,557	1,889,096,388	1,988,025,512	2,097,729,172
DEMAND						
	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
Total Residence & Business Lines						
Primary Line Residence	2.93%	7,285,660	7,389,268	7,605,773	7,828,622	8,058,001
LifeLine Residence	2.93%	60,973	61,853	63,666	65,531	67,451
Single Line Business	7.18%	1,011,643	1,045,353	1,120,410	1,200,855	1,287,077
Non-Primary Line Residence	10.00%	728,566	789,682	868,650	955,515	1,051,066
Multiline Business	8.67%	1,427,889	1,484,421	1,613,121	1,752,978	1,904,961
Total Residence & Business Lines	4.59%	10,514,731	10,770,577	11,271,619	11,803,502	12,368,556
SLC Charges Analyzed						
			1998	1999	2000	2001
Primary Line Residence			3.50	3.50	3.50	3.50
LifeLine Residence			3.50	3.50	3.50	3.50
Single Line Business			3.50	3.50	3.50	3.50
Non-Primary Line Residence			5.00	6.15	7.33	8.55
Multiline Business			7.50	7.73	7.96	8.20
PICC Charges Analyzed						
			1998	1999	2000	2001
Primary Line Residence			0.53	1.05	1.58	2.12
LifeLine Residence			0.53	1.05	1.58	2.12
Single Line Business			0.53	1.05	1.58	2.12
Non-Primary Line Residence			1.50	2.55	3.62	4.38
Multiline Business			2.75	4.33	5.96	7.07
Total SLC Revenue			537,830,747	582,913,077	633,481,931	690,613,822
Total PICC Revenue			117,237,753	221,150,530	339,321,933	456,315,708
Total Annual Recurring Revenue (SLC + PICC)			655,068,500	804,063,606	972,803,864	1,146,929,530
New Adjusted CCL Rev Req (CL Rev Req - Monthly Revenues)			1,140,004,058	1,085,032,782	1,015,221,648	950,799,642
- Long Term Support	0.00%		471,126,388	471,126,388	471,126,388	471,126,388
New Adjusted CCL Rev Req - Long Term Support			668,877,670	613,906,394	544,095,260	479,673,254
CCL Chargeable MOUs	8.40%		27,918,625,274	30,263,789,797	32,805,948,140	35,561,647,784
Originating			13,045,427,742	14,141,243,672	15,329,108,141	16,616,753,225
Terminating			14,873,197,532	16,122,546,125	17,476,839,999	18,944,894,559
NEW CCL RATE/MOU (Orig = Term)						
			1998	1999	2000	2001
			0.0240	0.0203	0.0168	0.0135
NEW CCL TERM RATE/MOU (If Orig = \$0.01)						
			0.0362	0.0293	0.0224	0.0185
NEW CCL RATE/MOU (Orig = Term)						
			0.0076	0.0050	0.0025	0.0000
Residual CCL Revenue Requirement			456,696,118	452,587,445	462,080,390	479,673,284

NATIONAL EXCHANGE CARRIER ASSOCIATION -- ACCESS REFORM ANALYSIS

Scenario: # 3 Modified Price Cap Rules: Assume Average MLB SLC=\$7.50 & Uniform P ICCs
 ASSUMPTIONS (SLC=\$3.50, 5.00 & 7.50; P ICC= Uniform Rates; CCL=0.0076; 0.0050, 0.0025 & 0.0000)

	FORECASTED	NECA INPUT DATA, ASSUMPTIONS AND GROWTH RATES				
	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
CL Revenue Requirement						
CL Revenue Requirement	5.50%	1,181,957,740	1,213,591,645	1,280,339,186	1,350,757,841	1,425,049,522
+ Line Port = 30% (LS Rev Req - DEM Weighting)	6.00%		168,675,764	178,796,310	189,524,089	200,895,534
+ TS Mktg Exp -- Expanded to CL Pool Membership	3.00%		11,750,917	12,103,445	12,468,548	12,840,544
+ New HC/LL -- 3.05% x ('97.SLC + Special Access)	3.00%		17,888,330	18,424,980	18,977,729	19,547,061
+ New HLTH/EDU -- 1.50% x 1997 EU Retail	3.00%		84,354,599	86,885,237	89,491,794	92,176,548
+ TIC Residual to CL Rev Req	6.00%		297,211,302	310,947,231	325,207,511	345,619,962
- COE Maintenance Delta		-	(9,800,000)	(9,800,000)	(9,800,000)	(9,800,000)
+ Avg Sched Form Adj. Frozen DEM Effects & NECA Expense Adj		-	11,400,000	11,400,000	11,400,000	11,400,000
New Total CL Revenue Requirement		1,181,957,740	1,795,072,557	1,889,096,388	1,988,025,512	2,097,729,172
DEMAND						
	ANNUAL GROWTH	1997/1998	1998	1999	2000	2001
Total Residence & Business Lines						
Primary Line Residence	2.93%	7,285,660	7,390,854	7,607,406	7,830,303	8,059,731
LifeLine Residence	2.93%	60,973	61,853	63,666	65,531	67,451
Single Line Business	7.18%	1,011,643	1,046,702	1,121,856	1,202,405	1,288,737
Non-Primary Line Residence	10.00%	728,566	783,260	839,586	923,544	1,015,899
Multiline Business	8.67%	1,427,889	1,487,216	1,616,158	1,756,279	1,908,548
Total Residence & Business Lines	4.59%	10,514,731	10,749,885	11,248,670	11,778,062	12,340,366
SLC Charges Analyzed						
			1998	1999	2000	2001
Primary Line Residence			3.50	3.50	3.50	3.50
LifeLine Residence			3.50	3.50	3.50	3.50
Single Line Business			3.50	3.50	3.50	3.50
Non-Primary Line Residence			5.00	6.15	7.33	8.55
Multiline Business			7.50	7.73	7.96	8.20
PICC Charges Analyzed						
			1998	1999	2000	2001
Primary Line Residence			4.45	5.08	5.69	6.34
LifeLine Residence			4.45	5.08	5.69	6.34
Single Line Business			4.45	5.08	5.69	6.34
Non-Primary Line Residence			4.45	5.08	5.69	6.34
Multiline Business			4.45	5.08	5.69	6.34
Total SLC Revenue			536,620,232	581,179,151	631,120,708	687,500,930
Total PICC Revenue			574,043,876	685,718,952	804,206,041	938,855,038
Total Annual Recurring Revenue (SLC + PICC)			1,110,664,108	1,266,898,102	1,435,326,749	1,626,355,968
New Adjusted CCL Rev Req (CL Rev Req - Monthly Revenues)			684,408,450	622,198,286	552,698,763	471,373,204
- Long Term Support	0.00%		471,126,388	471,126,388	471,126,388	471,126,388
New Adjusted CCL Rev Req - Long Term Support			213,282,062	151,071,898	81,572,375	246,816
CCL Chargeable MOUs	8.36%		27,918,625,274	30,263,789,797	32,805,948,140	35,561,647,784
Originating			13,045,427,742	14,141,243,672	15,329,108,141	16,616,753,225
Terminating			14,873,197,532	16,122,546,125	17,476,839,999	18,944,894,559
NEW CCL RATE/MOU (Orig = Term)						
			0.0076	0.0050	0.0025	0.0000